

Memo

To: Robert Kosin, Village Administrator

Date: April 24, 2015

From: Mike Harrington, Buildings and Grounds Committee

Subject: BACOG Lease Extension

As you know, the Village of Barrington Hills currently leases about 220 square feet of office space to BACOG. The current lease, which was entered into on July 1, 2014, was for a term of two years and will expire on June 30, 2016. The current annual rent is \$2,640 or \$ 12.00 per square foot.

Barrington recently offered BACOG an opportunity to lease space at the newly renovated "White House" in downtown Barrington for a term of five years. BACOG would prefer to continue leasing space from the village of Barrington Hills but has asked us to consider extending the term of their lease in order to provide some additional certainty to their planning process.

At our Village board of trustees meeting last month (March 30, 2015), we discussed the possibility of extending the term of the lease to BACOG. The board indicated a willingness to consider an extension and we instructed Janet Agnoletti, Executive Director of BACOG, to provide proposed terms of an extended lease. As requested, BACOG proposed the following:

- **TERM.**

Current lease runs 2 years: July 1, 2014 - June 30, 2016.

Propose amendment that would extend the lease for:

3 years: July 1, 2016 - June 30, 2019, or

5 years: July 1, 2016 – June 30, 2021.

- **AMOUNT.**

Propose an automatic rent amount increase each year for 3 years, in an amount of 5% per year over the previous year's rent amount. At the end of the 3rd year, the automatic increase will be in the amount of the Consumer Price Index or 5%, whichever is less.

- *2015-16 (current): \$2,640 (\$12.00/sq.ft.)*
- *2016-17 (proposed): \$2,772 (\$12.60/sq.ft.)*
- *2017-18 (proposed): \$2,911 (\$13.23/sq.ft.)*
- *2018-19 (proposed): \$3,056 (\$13.89/sq.ft.)*
- *2019-20 (proposed): increase determined by CPI or 5%, whichever is less*
- *2020-21 (proposed): increase determined by CPI or 5%, whichever is less*

Analysis

Relative to the Term, commercial lease durations are negotiated and vary from month-to-month to ten years or more, so an extension of 3 to 5 years is reasonable. The village does not currently have an alternative need or use for this space and does not anticipate having an alternative need or use for this

space over the proposed term. This is at least in part due to the fact that the digitalization of information continues to lessen the need for physical storage space.

Relative to the Amount proposed, commercial office space in the Barrington area rents for between \$11 and \$36 per square foot. Variability in rent amounts is a function of variability in location, accessibility, condition, amenities, services offered and size, among other factors.

Recommendation

While I believe the BACOG proposal is reasonable, I recommend that we make the following counter proposal:

TERM – BACOG is seeking a three or five year extension and I am open to either option. However, a three year extension (until June 30, 2019) would provide the village with more flexibility while still providing BACOG with a reasonably extended term and the greater planning certainty they seek.

AMOUNT – A 5% annual rent increase is attractive relative to the rate of inflation which has been running at about 2% or less annualized over the past year. For simplicity sake, should the board decide to a five year extension, I recommend the automatic rate increase of 5% apply to every year of the extension rather than an increase that may be contingent on the CPI in the final two years.

- 2015-16 (current): \$2,640 (\$12.00/sq.ft.)
- 2016-17 (5% increase proposed): \$2,772 (\$12.60/sq.ft.)
- 2017-18 (5% increase proposed): \$2,911 (\$13.23/sq.ft.)
- 2018-19 (5% increase proposed): \$3,056 (\$13.89/sq.ft.)
- 2019-20 (5% increase proposed): \$3,209 (\$14.59/sq.ft.)
- 2020-21 (5% increase proposed): \$3,369 (\$15.32/sq.ft.)

Next Steps

The Committee is seeking the approval of the recommended terms from the Board of trustees so that the terms may be presented to Janet Agnoletti, who will then discuss the proposed terms with BACOG's Finance Committee at their meeting on Tuesday, April 28, 2015. If BACOG is agreeable to the terms, a proposed lease would be presented for vote at the Board of Trustee meeting in May.